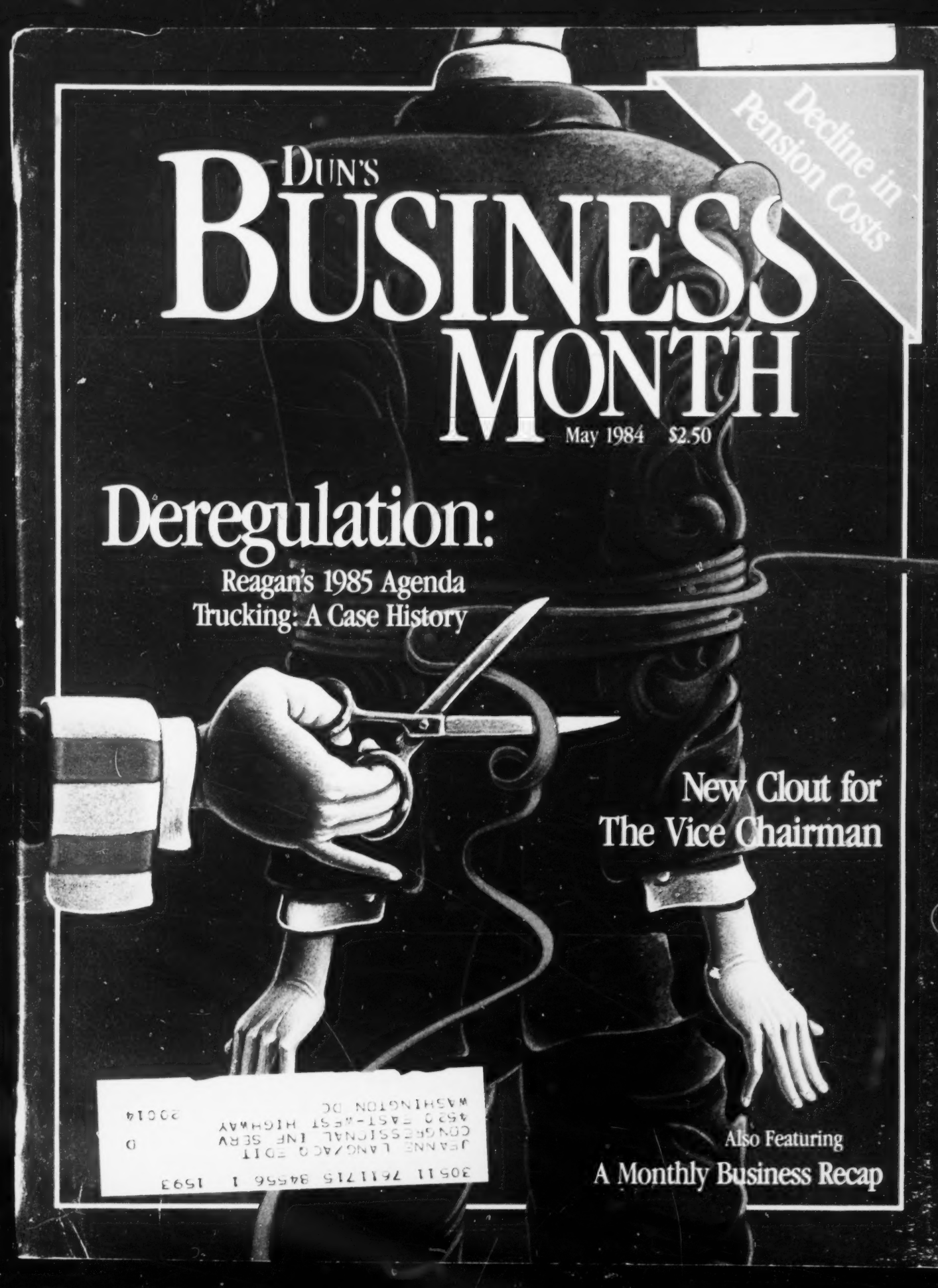
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Letters

UNION GAINS

A quibble over your item "The Unions Fail to Deliver" (The Business Month, *March*): Union gains always lag unorganized gains during periods of recovery because of the terms of contracts. Total compensation of union workers in 1983 still exceeded gains in the unorganized sector.

MURRAY SEEGER
Director
Department of Information
AFL-CIO
Washington, D.C.

STEEL IMPORTS

I hope that U.S. Steel Chairman David Roderick was misquoted in "Has Justice Killed Steel Comeback?" (*March*) when he claimed that nine out of ten tons of steel being imported are dumped.

The two leading foreign exporters, Japan and Canada, neither of whom have been named in any dumping petition by any U.S. steelmaker, supplied 39% of the 1983 import tonnage. And EEC imports, which supplied 24%, are under restrictions.

If the industry has problems with imports from certain countries, it should deal with them through U.S. trade laws rather than try to restrict or intimidate steel countries that trade fairly with the U.S.

CHARLES BUTLER
Director
Japan Steel Information Center
New York, N.Y.

Mr. Roderick was quoted correctly in the article. —ED.

HEALTH-CARE COSTS

The impact of health-care costs on B.F. Goodrich in 1983 was staggering but not quite to the extent reported ("Companies Gain in Health Cost Fight," *March*). Total company health costs of $64 million and the reported net loss of $32.8 million belong in 1982. For 1983, B.F. Goodrich earned $18.4 million in net income and incurred approximately $66 million in total health-care costs.

RICH WALKER
Manager of Commercial Accounting
The B.F. Goodrich Co.
Cleveland, Ohio

LOW-ALCOHOL BEER

To set the record straight, Anheuser-Busch is not the first American brewery to bring out a low-alcohol beer (The Business Month, *March*). Hudepohl Brewing Co., a small brewery in Cincinnati, began selling Pace Pilsner beer, a 1.8% alcohol beer, throughout Ohio last October.

Hence, while it is true that Anheuser-Busch will be the first national brewer to manufacture this type of beer, *small* breweries can lead the industry in new products as well.

LEE OBERLAG
Director of Advertising and PR
Hudepohl Brewing Co.
Cincinnati, Ohio

CORRECTION:

The steel production table that appeared in the March issue contained some errors. The correct table is shown below. It shows the major producers of various steel products. To qualify as a major producer, a steel company must have 10% or more of the market, except in the case of sheet steel, where 5% is the cutoff. Some of the firms that don't meet the cutoff requirements in the various steel categories are nonetheless fairly significant producers. For example, Inland is a well-known producer of bar.

Product	Domestic Shipments (1,000's of tons)	Imports (1,000's of tons)	U.S. Steel	Bethlehem	LTV	Armco	National	Republic	Inland	Wheeling-Pittsburgh	Others	Mini-mills
Structural Steel	3,190	1,445	✓	✓	X	X	X	X	✓	X	Northern Steel & Wire Chaparral Steel Bayou Steel C.F. & I. Steel	moving into the junior-sized structural steel market
Bar	11,666	974	✓	✓	X	X	X	✓	X	X	Nucor Florida Steel Chaparral Steel	supply an estimated 75% of the market
Plate	3,832	1,003	✓	✓	X	X	X	X	X	X	Lukens Inc.	X
Wire Rod	1,384	872	✓	✓	X	X	X	X	X	X	Georgetown Steel Raritan River Steel Keystone Steel & Wire Continental Steel Northwestern Steel & Wire	supply an estimated 75% of the market
Sheet												
cold-rolled	13,781	2,417										
hot-rolled	11,619	2,317	✓	✓	✓	✓	✓	✓	✓	✓	Rouge Steel (Ford Motor) McLouth Steel	X
galvanized	6,434	1,824										
other	2,957	452										
Rail	633	108	✓	✓	X	X	X	X	X	✓	C.F. & I. Steel	X
Pipe & Tube	3,240	2,861	✓	X	✓	X	X	X	X	X	Lone Star Steel	moving into pipe & tube market

A (✓) indicates the company makes the product, while an (x) indicates it does not. The figures are for 1983.

Building Is Uneven—And So Is the Recovery

Construction is a major stimulant to the economy—but the pattern is ragged.

The overall economy may be marching forward, but there are stragglers who are out of step. For some regions and industries, the impact of the recovery is very uneven; within this major cycle, there are many subcycles.

Building permits offer a good illustration of this spottiness. Even within the ten cities that had the highest value of building permits in 1983, there were dramatic changes from the prior year. Houston took a 43.2% plunge, while San Diego soared 60.1% *(table)*.

Among the 200 cities surveyed by DUN'S BUSINESS MONTH, other hot spots based on the total value of building permits are San Jose, California; Colorado Springs, Colorado; and Anchorage, Alaska. On the other side of the coin, the value of 1983 building permits declined sharply in Seattle, Washington; Akron, Ohio; Washington, D.C.; Miami, Florida; and Detroit, Michigan. The regional picture is equally ragged, with the change in permits ranging from −44.1% in the East South Atlantic to +41% in the Mountain States *(table)*.

These are important trends, since building permits soon translate into starts—and housing starts typically help ignite a recovery. For example, in 1983, housing starts hit 1.7 million, up from a low of 1 million in 1981, and this in turn led to more purchases of furnishing and appliances.

Within the important building cycle, there are other subcycles. In residential housing starts, for example, most of the activity in recent months has been in multifamily units. By comparison, starts on single-family homes are sluggish. Office building starts are reasonably strong in general, but there are notable exceptions in cities that have overbuilt. The variation in permit values is illustrated by Anaheim, California, where they increased by 100% between 1980 and 1982 and only 20% between 1982 and 1983. Similarly, in Minneapolis permits doubled between 1981 and 1982 but declined 8% the following year.

As these comparisons clearly show, it's important to look beneath the broad economic indicators in order to evaluate the true strength of the current recovery. Communities where building permit values and housing starts are now booming will be enjoying the boost that construction brings through 1985 and even into 1986.

—JOSEPH W. DUNCAN

Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The

SWINGS IN PERMITS

BY REGION

REGION	PERCENT CHANGE 1981-82	PERCENT CHANGE 1982-83
New England	0.8%	−11.4%
Middle Atlantic	−10.8	−0.8
East North Central	5.1	8.2
West North Central	29.6	11.0
East South Atlantic	129.7	−44.1
East South Central	−3.0	40.5
West South Central	0.5	14.8
Mountain	−1.0	41.0
Pacific	3.8	23.1

THE TOP TEN CITIES

CITY	PERMITS 1983 (In millions)	PERMITS 1982 (In millions)	CHANGE 1982-83
Los Angeles	$2,160	$1,737	24.4%
Dallas	1,917	1,479	29.6
Houston	1,639	2,884	−43.2
New York	1,349	1,347	0.1
San Diego	1,151	719	60.1
San Francisco	1,122	1,172	−4.2
Anchorage	999	562	77.7
Oklahoma City	961	637	50.8
Austin	894	739	20.9
Phoenix	845	644	31.1
Chicago	779	835	−6.7

Behind the Decline In Pension Costs

The fall-off in pension costs has a way to go. Behind it are recession-induced layoffs, hefty stock profits and more.

American Can's pension-fund costs slipped 37% in the last two years, from $90.2 million to $56.5 million.

Firestone Tire and Rubber's costs plunged 61% in the same period, from $44 million to $17 million.

And at International Paper, the drop was a dramatic 71%, from $70 million to $20 million.

Far from being isolated instances, these are but a few examples of how radically the pension-expense picture has changed for the nation's corporations. The story is the same whether measured by per cent of payroll, by the costs reported in financial statements or by the amounts that companies actually contribute each year (they have leeway to pay in more or less than the reported expense). According to a survey of 1,639 companies by Greenwich Research Associates, 1983 contributions fell $4.2 billion, or 15%, to $23.8 billion.

Pension costs have been driven down by a number of forces, including layoffs, early-retirement programs and the cooling-off of inflation. Some of the causes, such as recession-induced plant closings and a booming stock market, are obviously transitory. But others have more permanence and will affect pension costs for years to come. Among the latter are the decline in union power, the termination of many pension plans, the faster growth of alternatives to such plans and the fact that many pension plans locked in hefty investment returns during the era of sky-high interest rates. All of this has important implications for corporations, for the stock and bond markets and for the mini-industries—the money managers and consultants—that have been nourished by pension-fund activity.

Fixed-benefits passé?

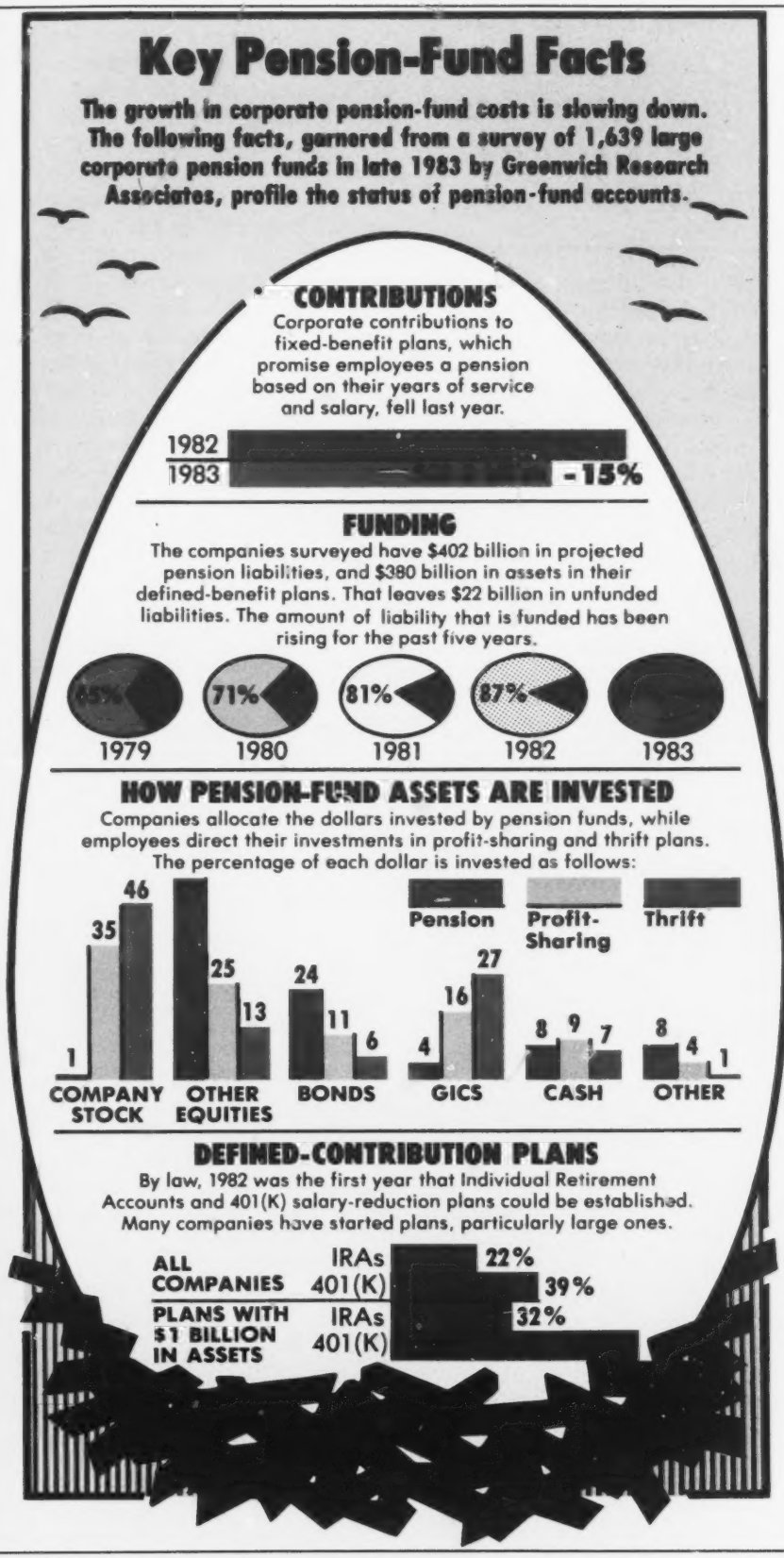
Most private pension plans promise retirees a fixed benefit based on years of service and salary, typically 50% of final pay, counting Social Security. In the 1970s, inflation drove salaries, and consequently pension costs, up unrelentingly and uncontrollably, and these fixed-benefit plans became increasingly unpopular with employers.

After the passage of the Employee Retirement Income Security Act (ERISA) in 1974, many small and medium-sized employers terminated their plans—claiming that the new law raised administrative costs and paperwork to unacceptable levels—and the growth in new plans slowed sharply, notes Dallas Salisbury of the Employee Benefit Research Institute, a Washington, D.C., think tank. For example, almost twice as many fixed-benefit plans were terminated as were started in 1976.

The formation of new plans has fallen so sharply that many insurers, including the giant Equitable Life Assurance Society of America, have quit the business of designing and servicing plans. MONY is another dropout. Executive Vice President Gordon Perry reports that MONY acquired only five new accounts in 1982. So after 25 years in the pension service business, MONY resigned the 3,000 small and medium-sized accounts on its books.

Moreover, the unions, which fought for and won a steady tide of improvements in fixed-benefit plans during the 1960s and 1970s, lost their clout. Recent negotiations have rarely resulted in new plans, improved benefits or fat wage increases that could send costs skyrocketing in the future. "There will be fewer defined-benefit plans in the future," says Chairman Dave Williams of Alliance Capital Management, which has charge of investing some $20 billion in pension fund money.

Some companies negotiated a reduction in benefits with their unions or made changes unilaterally. American



Telephone & Telegraph, for one, changed its plan from a pension based on an employee's earnings in his last five years to a dollar rate per employee per year for union employees and to a career average for salaried employees; the change, initiated in October 1980, resulted in a $1.3 billion drop in AT&T contributions in the year ending September 30, 1983.

Most companies amortize the cost of pension improvements over thirty or forty years, and unless there is a steady stream of improvements, pension expenses fall automatically in re-

Plans grow old

lation to payroll. Many of the nation's largest plans were started in the early 1950s; they are now mature and are seeing this effect, reports Vice Chairman Robert E. Paul of benefit consultants Martin E. Segal & Co.

In the 1980s, an old phenomenon—defined-contribution plans—reemerged as a major force in new benefit programs. These plans, which include profit-sharing and thrift programs, have always been popular with managers because they are easy to administer and to predict costs. Then with Congressionally-endowed tax-breaks for salary-reduction plans and individual retirement accounts, many companies converted their thrift plans overnight into 401(K) plans. Many small and medium-sized employers shifted to them as a substitute for fixed-benefit plans (*see* "Pensions in Jeopardy," *May 1983*).

Large employers quickly discovered that 401(K) salary-reduction plans and IRAs are popular sweeteners for their benefits packages. Sky-high interest rates offered by IRAs and their tax-sheltering attributes made them attractive to workers too. And companies that offer these new benefits relieve the pressure to improve fixed-benefit plans, observes pension consultant William Dreher of Peat, Marwick, Mitchell & Co.

In some cases, employers introduced defined-contribution plans at

the same time that they put caps on their defined-benefit programs, reports consultant Gerald Facciani of Professional Plan Administrators, Cleveland. Or they reduced some of their fixed benefits while beefing up their defined-contribution plans. Last year, Borden changed the pension base for its 9,400 salaried employees from final average pay to career average, but at the same time the company raised its matching rate on employee contributions to its thrift plan and introduced a salary-reduction plan.

Even as benefit reductions were cutting the size of Corporate America's eventual pension obligation, a booming stock market produced an incredible investment windfall, vastly expanding the pot of assets available to pay that obligation. According to the *Pension & Investment Age* annual survey of pension assets last September, many funds grew more than 30% in the preceding twelve months. Among them were some of the biggest corporate names: IBM's assets rose almost 45%; Hughes Aircraft, 44.4%; Standard Oil of California, 43.9%; Caterpillar Tractor, 36.1%; RCA, 35%; Ford Motor Co., 34.6% and AT&T, 34%—and the more the return to the pension fund from stocks and bonds, the less the company must contribute.

These phenomenal results have just begun to be reflected in lower contributions, according to actuary Kenneth Keene of Johnson & Higgins. Most actuaries don't use current market prices to compute the value of a pension fund's assets, but smooth out gains and losses over three, five, ten or fifteen years. Thus, the impact of market gains will be felt for many years to come—"and will continue even if the market should turn south from here," says Keene.

The towering rates on long-term bonds in the early 1980s also enabled pension fund managers to raise their interest rate assumptions. Here again, the greater the assumed return, the less the company must ante up. A survey of forty major companies by investment managers BEA Associates shows that nearly half held down

Companies cut fixed benefits while installing 401(K) salary-reduction plans.

pension costs by boosting investment return assumptions in 1981.

Another way companies are reducing costs is by setting up mini-funds—called dedicated or immunized portfolios—to take care of the projected payments to employees who are already retired. The portfolios contain very-high-coupon bonds with staggered maturities that will produce income matching the company's estimated benefit payments. Since the yield on a dedicated portfolio is generally much higher than the assumed return of the over-all pension program, the company contributes less money to produce a given amount of income.

Dedicated savings

For example, B.F. Goodrich set up a dedicated bond portfolio and saved $21.7 million, or 33% in costs, in 1982, according to the BEA survey. Firestone's Treasurer John E. Rooney confides that after Chairman John J. Nevin pressured his office to lock up rich market rates, the company set up dedicated portfolios and bought 17% bonds in 1981 and 15% bonds in 1982. According to *Pension & Investment Age,* 31 companies have dedicated funds worth $6.6 billion.

Because of lush investment returns, many pension plans are fully funded and do not have to contribute anything more under current conditions (both ERISA and the Internal Revenue Service have standards for determining whether a plan is fully funded). IBM, for one, has contributed $70 million less than its pension expense allocation in the past two years because it hit its IRS funding limit. Firestone has made no contributions to its domestic plans for the past three years. Treasurer Rooney says that contributions to Firestone's plan for hourly employees will hinge on future labor negotiations, but he sees no need to contribute to the plan for salaried employees for the foreseeable future.

The number of fully-funded companies had been growing rapidly even before the recent market upsurge. According to Alliance Capital's Dave Williams, about 30% of his company's clients were fully-funded or overfunded in 1977, and 60% were in this group at the end of 1982. Adds Williams: "We suspect that at the end of 1983 the percentage of over-funded or fully-funded was probably in the 75%-to-80% category." And Johnson & Higgins' Keene predicts that many more companies will hit full-funding levels in the next five years.

Recently, there has been a surge of companies scrapping their pension plans and recapturing any assets that are not needed to pay any accrued pension obligations (*see* "Pension Plans: Problem of Plenty," *January 1984*). The Pension Benefit Guaranty Corp., which regulates terminations, estimates that corporate pension plan sponsors will recapture about $2 billion this year. Applications to PBGC for permission to drop pension plans are still on the upswing. Says pension consultant Gerald Facciani: "We have more termination business than we can handle."

While most large companies are not expected to drop their defined-benefit plans, they will gain from the new climate by having reduced pension expenses as a per cent of payroll costs. Moreover, they will acquire more control over costs, and the latter will be more predictable.

Unfortunately for shareholders, these savings aren't likely to show up as bigger profits and dividends. Corporate treasurers and benefit consultants alike agree that the savings are going to be needed to pay skyrocketing corporate medical bills. But if it's any consolation, at least the pension fund savings will keep these other expenses from devastating earnings.

With less money going into pension

funds, which in turn are the biggest buyers of stocks, what will happen to the market? Many professionals say they are not worried because they expect public pension funds to move more heavily into equities and to take up any slack created by smaller private-pension purchases.

But the people who manage pension fund money are worried about their own business. They fear that companies will become more conservative investors and divert funds to bonds—a development that would be given great urgency, says Alliance Capital's Williams, if the Financial Standards Board requires that pension liabilities be reported on the balance sheet, a rule now under serious discussion. "I don't need to explain to money manag-

No hotshots wanted

ers here that we get paid less for managing bonds than we do for managing stocks," Williams told his colleagues at a recent seminar in San Francisco sponsored by pension consultants Callan Associates.

Another cause for concern is the fact that employees decide where their money is to be invested when they sign up for IRAs and 401(K) plans, and the record shows that they don't buy hot-shot, high-turnover money management. A Greenwich Research Associates survey shows that company stock is the most favored investment. They also like guaranteed investment contracts, which are insured bond portfolios.

With a smaller portion of a diminished stream of pension-plan money going into stocks, Williams predicts there will be a shakeout among competing investment advisers, which in turn will lead to lower fees. "We should look ahead to a less golden environment," he cautions.

The actuaries who are paid big bucks to design and update defined-benefit plans are already hurting from the changing pension picture. And the dropoff in new plans comes at the time when computers are replacing their mathematical expertise. For example, accounting firms like Peat, Marwick,

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– Jim Van De Velde, Executive Vice President
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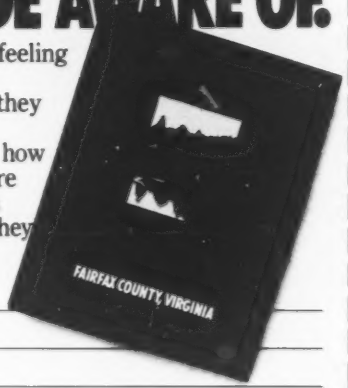

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Inquire in confidence to: April L. Young, Executive Director, Fairfax County Economic Development Authority, 8330 Old Courthouse Road, Suite 800, Tysons Corner, Vienna, Virginia, 22180. Phone (703) 790-0600.

FAIRFAX COUNTY, VIRGINIA

D006

Mitchell and Coopers & Lybrand are marketing computer software that enables a company to figure out the financial impact when it makes different assumptions about employee age, salaries, turnover and investment returns—calculations that actuaries traditionally do for their clients. Thus many large companies are doing many of the actuarial chores in-house and Johnson & Higgins' Keene observes: "We expect dog-eat-dog competition, with costs dropping 50% and more."

Significant difference

Not only are insurers like Equitable and MONY quitting the business, but pension consultants such as Coopers & Lybrand expect to slim down staffs. In addition, says Johnson & Higgins' Keene, "We have been thinking long and hard about diversifying."

Of all the changes, the most far-reaching economic impact will come from the rise in defined-contribution plans. They will make a significant difference in the retirement income individuals collect, and thus in the purchasing power of this growing segment of this nation's population. Noting that the average worker is not in a high enough tax bracket to make a 401(K) plan attractive, union officials such as William Hoffman, director of Social Security of the United Auto Workers, warn their members that such plans offer very little security. But as long as interest rates stay high and workers think that they can become millionaires by putting away $2,000 a year, employees will be mesmerized by these funds, he believes.

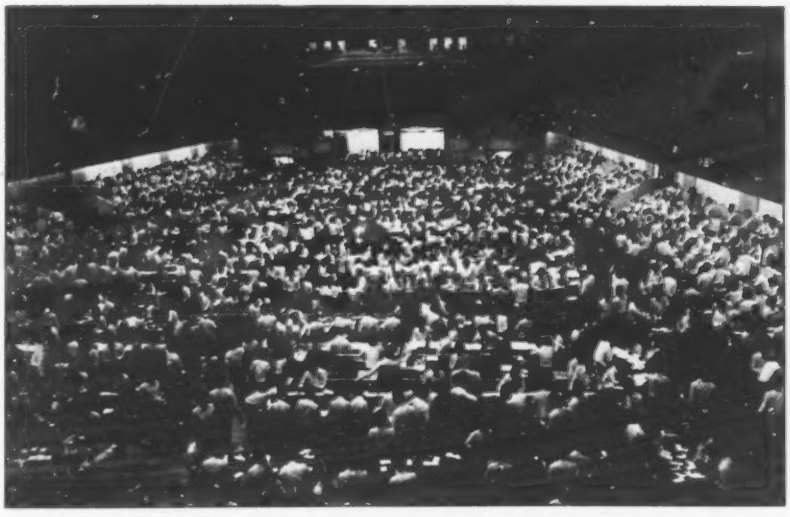
It seems inevitable that some workers will refuse to save and that others will invest badly, and this will lead to a host of horror stories about self-directed pension accounts. But for many Americans, they will be a significant force for good—encouraging them to save more and teaching them to be more-savvy investors as they work to enhance their retirement income.

Whether the winners or the losers predominate will obviously have a significant economic impact.

—ARLENE HERSHMAN

Opening Japan's Financial Markets

U.S. pressure produces some concessions, but strict rules still keep foreigners out.



Tokyo Stock Exchange: Japanese have produced the largest pool of savings outside the U.S.

When Treasury Secretary Donald Regan arrived in Tokyo recently with a wish list of trade and finance items, his first priority was to achieve greater international use of the yen. Washington claims, with growing anger, that Japanese controls over its financial and capital markets have kept the yen artificially undervalued against the dollar, giving Japanese exporters an unfair advantage over their American competitors. If the yen were used more widely in international trade and finance, demand for the currency would boost its value and hence help exporters in other countries.

This is obviously of tremendous importance to the U.S. government, saddled this year with a trade deficit that is likely to top $100 billion, and to American exporters. It is also of tremendous importance to the American bankers, brokers and insurance people, for the drive to internationalize the yen is part and parcel of an effort to deregulate the Japanese financial services system and give Americans the same privileges their Japanese counterparts enjoy in the U.S.

Americans especially want the chance to manage Japanese pension funds, and the prize there is awesome. Japanese savers have produced the largest accumulation of capital outside the United States. The market value of shares on the Tokyo Stock Exchange is equal to the combined value of all European exchanges. The aggregate amount of Japan's government and corporate debt and equity is

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(3/30/84) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$ 19.08/share	$ 10,089	$10,810
per cent change		+.08%	+8.1%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$ 94.563	$ 9,761	$ 8,921
ACCUMULATED INCOME		$ 121	$ 923
TOTAL		$ 9,882	$ 9,844
per cent change		−1.1%	−1.5%
Money Market Fund	8.91%	$ 10,076	$10,887
per cent change		+ .7%	+8.9%
Gold (Krugerrands)	$ 409.75/oz.	$ 9,785	$ 9,403
per cent change		−2.1%	−5.9%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$ 78,600	$ 81,800	$74,700
per cent change		−4.0%	+ 5.0%
New House	$ 93,600	$104,100	$81,000
per cent change		−11.2%	+13.4%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

the conventional growth managers," Maxwell says.

Such other groups as the Explorer Fund (1983 gain: 20.5%) and Quasar Associates (up 33.9%) buy high P/E growth stocks. Quasar will even buy high P/E stocks that have been clobbered because of disappointing earnings if they think that the fundamentals are good, he says.

Among large-capitalization investors, Maxwell found that most of the funds he chose had a value bias. Some were income-oriented investors who sought total return, such as Fidelity Management's Equity Portfolio: Income (27% advance in 1983), T. Rowe Price Growth & Income (up 32.4%) and the Windsor Fund (up 30.2%). Others were contrarians who bought out-of-favor large-capitalization stocks, such as Mutual Qualified Income Fund (1983 growth: 34.9%) and Trustees Commingled Equity Fund (up 29.1%).

For example, Mutual Qualified Income Fund, which is managed by Max Heine and Michael Price, often buys companies that are in bankruptcy or reorganization. If they estimate that a company's asset values are worth more than the market value, they buy the stock and wait for realization, he says. They bought A&P because of the value in its overfunded pension fund; and they bought Esmark because its physical assets were not reflected in its stock price. "The fund never has any real bad years," Maxwell says, "which has helped give it a good long-term record."

The opportunistic managers were the hardest to classify, according to Maxwell. They tend to have "good vibes" for changes in market direction or popularity, he says. But their results also are more volatile than the other types of funds, rising more in up periods and falling more in declines. Based on overall performance, the managers he chose were the Janus Fund (up 26.5% in 1983), Massachusetts Capital Development (up 26.1%) and Paramount Fund (up 31.3%).

—A.H.

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